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Message Text

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E.O. 11652: N/A
TAGS: EFIN, IN
SUBJ: INDIAN RUPEE SETTLEMENT: STATUS REPORT

REF: BORN/VELIOTES TELCON, OCTOBER 5

FOR AMBASSADOR

1. FYI: FOLLOWING IS REPORT ON INDIAN RUPEE SETTLEMENT:

THE SENATE ADOPTED SEPTEMBER 28 BY A 67-18 VOTE AN AMEND-
MENT INTRODUCED BY SENATOR HARRY BYRD TO THE DEFENSE
APPROPRIATIONS BILL REQUIRING THAT THE CONGRESS MUST AP-
PROVE ANY SETTLEMENT PROVIDING FOR LESS THAN FULL PAY-
MENT OF THE INDIAN DEBT TO THE US. THE SENATE AMENDMENT
IS NOT IN THE HOUSE BILL AND WILL BE CONSIDERED BY THE
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JOINT CONFERENCE OCTOBER 8. IF ACCEPTED, IT WILL
VIRTUALLY KILL THE PROSPECTS FOR A RUPEE SETTLEMENT SINCE
THERE IS LITTLE CHANCE THE CONGRESS WILL VOTE FOR THE
AGREEMENT GIVEN THE UNPOPULARITY OF INDIA ON THE HILL.

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SENATE ADOPTED OCTOBER 2 IDENTICAL AMENDMENT, AGAIN PROPOSED BY BYRD, TO FOREIGN ASSISTANCE ACT. JOINT CONFERENCE NOT RPT NOT YET SCHEDULED, BUT EXPECTED OCTOBER 9. WE ARE SEEKING DELETION OF THE BYRD AMENDMENT IN THESE CONFERENCES FROM BOTH BILLS CONCERNED. FOLLOWING ARE TERMS OF PROPOSED RUPEE SETTLEMENT:

WE WOULD OBTAIN INDIAN PREPAYMENT OF $2.4 BILLION EQUIVALENT IN OUTSTANDING PRINCIPAL DUE ON ALL RUPEE REPAYABLE LOANS. THESE PAYMENTS, PLUS OUR CURRENT RUPEE HOLDINGS OF $840 MILLION, WOULD BRING THE TOTAL TO $3.2 BILLION.

WE WOULD RETAIN $1.0 BILLION EQUIVALENT OF THE $3.2 BILLION FOR USG EXPENDITURES IN INDIA AND NEPAL.

WE WOULD GRANT BACK TO INDIA UNDER EXISTING LEGISLATIVE AUTHORITY THE REMAINING $2.2 BILLION FOR "MUTUALLY AGREED DEVELOPMENT PURPOSES."

2. SECRETARY HAS RAISED MATTER WITH SENATOR MANSFIELD AND PHONED BYRD, WHILE DEPSEC HAS PHONED SENATORS STENNIS, TOWER, THURMOND, AND REP. HEBERT AND WRITING TO ALL DEFENSE BILL CONFEREES TO REQUEST SUPPORT FOR ADMINISTRATION'S POSITION TO HAVE BYRD AMENDMENT DELETED, DRAWING ON FOLLOWING POINTS:

WE HAVE CLOSELY CONSULTED WITH THE CONGRESS ON THE RUPEE PROBLEM. AMBASSADOR MOYNIHAN AND MARSHALL WRIGHT MET WITH THE CHAIRMEN AND NUMEROUS MEMBERS OF THE AGRICULTURE, FOREIGN AFFAIRS/RELATIONS AND APPROPRIATIONS COMMITTEES DURING WEEK OF SEPTEMBER 24.

THE PROPOSED SETTLEMENT CONFORMS TO EXISTING LAW. IN ACCORDANCE WITH SECTION 104 OF PL-480, THE PRESIDENT WILL TRANSMIT TO THE SENATE AND HOUSE AGRICULTURE COMMIT-
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TEES THE TERMS OF THE PROPOSED SETTLEMENT WITH INDIA THIRTY DAYS BEFORE ENTERING INTO THE PROPOSED SETTLEMENT.

THEREFORE, THE BYRD AMENDMENT IS UNNECESSARY. (FURTHERMORE, ITS PASSAGE, BY REQUIRING FULL HOUSE AND SENATE VOTES, WOULD AS A PRACTICAL MATTER, END ALL CHANCE TO ENTER INTO A SETTLEMENT.)

WE THINK THE PROPOSED SETTLEMENT IS A GOOD ONE IN TERMS OF US INTERESTS.

THE SETTLEMENT GIVES US ASSURED ACCESS TO LOCAL CURRENCY TO PAY FOR USG EXPENDITURES IN INDIA AND NEPAL

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WITH RUPEES RATHER THAN DOLLARS FOR ABOUT 20 YEARS.

THE MOUNTING PILE OF RUPEES HAS BECOME AN IRRITANT IN INDO-US RELATIONS; A SETTLEMENT IS A POLITICAL ASSET.

THE SETTLEMENT FOLLOWS THE SENSE OF THE GOVERNMENT ACCOUNTING OFFICE'S 1971 REPORT WHICH STATED THAT "IT

APPEARS HIGHLY UNLIKELY THAT THE US WILL BE ABLE TO CONVERT MORE THAN A SMALL PORTION OF ITS TOTAL RUPEE HOLDINGS INTO REAL RESOURCES FOR ITS OWN USE."

FAILURE TO CONCLUDE A SETTLEMENT WILL INCREASE LEFTIST PRESSURES ON THE GOVERNMENT OF INDIA TO REPUDIATE THE RUPEE DEBT TO THE US AND COULD IN TIME IMPERIL OUR WHOLLY SPEARATE $3.4 BILLION HARD CURRENCY DEBT, WHICH INDIA IS SCRUPULOUSLY PAYING (130 MILLION ANNUALLY).

3. FOLLOWING ARE DEFENSE BILL CONFEREES: SENATORS JOHN C. STENNIS, STUART SYMINGTON, HENRY M. JACKSON, HOWARD W. CANNON, THOMAS J. MCINTYRE, STROM THURMOND, JOHN G. TOWER, PETER H. DOMINICK, BARRY GOLDWATER, HARRY F. BYRD, JR.; REPRESENTATIVES F. EDWARD HEBERT, MELVIN PRICE, O. CLARK FISHER, CHARLES E. BENNETT, SAMUEL S. STRATTON, WILLIAM G. BRAY, LESLIE C. ARENDS, BOB WILSON, CHARLES S. GUBSER.

4. FOLLOWING ARE PROBABLE AID BILL CONFEREES, BUT
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NO RPT NO ANNOUNCEMENT IS EXPECTED BEFORE OCTOBER 8. SENATORS FULBRIGHT, HUMPHREY, AIKEN, POSSIBLY JAVITS AND MANSFIELD OR CHURCH. REPRESENTATIVES MORGAN, ZABLOCKI, FASCELL, FRAZER, MAILLIARD, FREYLINGHUYSEN, BROOMFIELD. RUSH

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